Clearing and settlement in the European Union

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PURPOSE : outlines the actions the Commission intends to undertake in order to improve Clearing and Settlement arrangements with a view to ensuring a level playing field among the different providers of Clearing and Settlement services.

CONTENT : the creation of an integrated and efficient European capital market is one of the most important and ambitious economic projects currently under way in the European Union. Since 1999, when the Financial Services Action Plan was launched, considerable progress has been made towards this goal, both in terms of legislative measures and market integration.

A crucial element of this framework will be the safety and efficiency of the arrangements required to finalise securities transactions ("Clearing and Settlement"). These arrangements, largely invisible to the retail investor, lie at the core of all securities markets and are indispensable for their proper functioning.

The Communication defines the key policy objectives that the Commission has taken into account in proposing future action at the EU level. It includes an action plan outlining the various initiatives that need be undertaken to achieve an integrated, safe and efficient securities clearing and settlement environment in the EU.

In this Communication the term "Clearing and Settlement" is intended to describe the full set of arrangements required to finalise a securities or derivatives transaction. These arrangements encompass a broad collection of institutions, instruments, rules, procedures, standards and technical means.

In this Communication, the Commission outlines the actions it intends to undertake in order to improve Clearing and Settlement arrangements. The Commission's approach is based on the following considerations:

- the objective to be pursued is the achievement of an efficient, integrated and safe market for securities clearing and settlement;

- the integration of securities clearing and settlement systems will require the combined intervention of market forces and public authorities. In this context, the Commission will seek to promote co-ordination between private sector bodies, regulators and legislators so as to achieve the desired outcome as efficiently as possible;

- in an integrated barrier-free environment, infrastructure providers and users of the relevant services should have access to and choice of their preferred, properly authorised and supervised clearing and settlement system, operating in full conformity with the EU's competition rules. In order to arrive at such a liberalised environment and to ensure the mutual recognition of systems, regulatory intervention at an EU level, through the adoption of a framework Directive, will be necessary.

The Commission's overarching objective is the creation of EU Securities Clearing and Settlement Systems that are efficient and safe and which ensure a level playing field among the different providers of Clearing and Settlement services. In order to achieve this objective, the Commission considers that the following measures and policies need to be pursued:

a) the liberalisation and integration of existing Securities Clearing and Settlement Systems through the introduction of comprehensive access rights at all levels and the removal of existing barriers to cross-border clearing and settlement;

b) the continued application of competition policy to address restrictive market practices and to monitor further industry consolidation;

c) the adoption of a common regulatory and supervisory framework that ensures financial stability and investor protection, leading to the mutual recognition of systems;

d) the implementation of appropriate governance arrangements.

The Commission invites comments on all aspects of this Communication from the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of the Regions, national regulatory and supervisory authorities, other EU level and national organisations and federations, market practitioners, institutional investors, infrastructure providers and all other interested parties by the 30th of July 2004. It will then finalise its decisions during 2005 as to the course of action it will adopt and the exact contents of any measures that may prove necessary.